

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Modification of Analytical Principles
in Periodic Reporting
(Proposals Nine through Fifteen)

Docket No. RM2012-1

Comments of the Public Representative

(December 5, 2011)

Background

On November 1, 2011, the Postal Service (“USPS”) filed a petition requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting. These changes are contained in Proposals Nine through Fifteen below. On November 10, 2011, the Postal Regulatory Commission (“Commission” or “PRC”) issued Order No. 963, granting the Postal Service’s petition and opened this docket to consider the matters raised by the Postal Service’s Petition. The Public Representative (“PR”) hereby comments on the issues raised in the Postal Service’s petition.

Proposal Nine: Change in Method for Inbound RPW Reporting

The Postal Service proposes to change the method for distributing the domestic transportation costs of Foreign Origin mail from a piece-based, to a weight-based, method. USPS notes that in FY2008, the International Cost and Revenue Analysis Report (ICRA) began collecting inbound mail statistics separately by country, making it possible to calculate country-specific inbound product costs. The Postal service was not previously able to estimate inbound costs by product, and instead used a piece-based method for distributing domestic transportation costs to inbound international products. *Petition Of The United States Postal Service Requesting Initiation Of A Proceeding To Consider Proposed Changes In Analytical Principles (“Petition”) at 3.*

The PR applied the Postal Service’s proposed method and concludes that it correctly substituted an international product’s share of weight for its share of pieces to distribute transportation costs to inbound international products. It is commonly

accepted that weight is a better driver of transportation costs than are pieces. Moreover, the proposed change reduce the already less than 100 percent cost coverage for “Inbound Single-Piece First-Class Mail Int’l.” Rather, it would shift costs from the bilateral agreement with Canada Post for Inbound Single Piece First Class Mail, to the same product for Target System Countries (at UPU rates) and, to a lesser extent, to Transition System Countries (at UPU rates). *Proposals Nine – Fifteen, Proposal9.xls, Sheet: ‘Diffs A Pages (md)*.

The PR recommends the Commission accept this method of distributing Inbound International transportation costs because it does not reduce coverage for this product, and would provide a more accurate distribution of transportation costs for this product because Inbound Single-Piece First-Class Mail from Canada weighs much less per piece than inbound mail from the rest of the world. *Petition at 9*.

Proposal Ten: Change the In-Office Cost System for Undeliverable as Addressed Parcel Select Pieces

The Postal Service states that for most of FY2011, the cost of undeliverable as addressed (UAA) Parcel Select Mail was assigned to Parcel Post. It proposes to modify IOCS so that the cost of UAA Parcel Select Mail remains attributed to Parcel Select Mail now that it is charging different rates for UAA Parcel Post and UAA Parcel Select mail. *Petition at 4*. This proposal would increase attributable Parcel Select costs and reduce attributable to Parcel Post costs if it is accepted.

The PR examined the SAS code in the SAS program folders used to create the IOCS datasets filed with its Annual Compliance Reviews (“ACR”) in FY2008, FY2009, and FY2010, and concludes that the transfer of UAA Parcel Select costs to Parcel Post began in FY2009. The PR is unable to detect this transfer in FY2008 based on the

Library References the Postal Service filed with its ACRs for each of those years.¹ The PR recommends the Commission inquire whether revenues collected for UAA Parcel Select Mail in FY2009 and FY2010 were transferred to Parcel Post. If not, then Parcel Post, a market dominant product, subsidized Parcel Select, a competitive product, in FY2009 and FY2010. The PR also recommends the Commission investigate whether other undisclosed programming code in the IOCS, or other databases used for costing, improperly transfer attributable costs of competitive to market dominant products.

The PR certainly agrees with the Postal Service that the proposed method will improve attribution accuracy and recommends the Commission accept this modification.

Proposal Eleven: Change in Method to Calculate Delivery Cost Savings From Express Mail Negotiated Service Agreements (NSAs)

The Postal Service proposes to make three modifications to the method used to estimate the delivery savings from NSA Express Mail. The first modification would remove costs attributed to Accountables from NSA Express Mail with a signature waiver, and attribute the cost of scanning and filling out a delivery completion form to the delivery of letters, flats, small parcels, and deviation parcels. This change would make the method of costing NSA Express mail with a signature waiver consistent with the accepted methodology of Proposal Eight, Docket No. RM2011-12. The second modification would replace two proxies used to calculate the cost of delivering non-accountable Express Mail on Regular Delivery and Special Purpose Routes, with the direct determination of the attributable delivery costs now that the City Carrier Cost

¹ It is possible that the cost transfer occurred earlier, but the program code showing this was not filed in an Annual Compliance Review Library Reference until F2009.

System (“CCCS”) collects data on the percent of Express Mail that is delivered with a signature waiver. The third modification would replace the assumption that ten percent of NSA Express mail would shift from delivery by Special Purpose Route Carriers to Regular City Delivery Carriers, with an assumption that twenty-five percent would be delivered by Regular City Delivery Carriers.

The PR recommends the Commission adopt the first and the second proposed modifications. The Postal Service’s method of transferring the delivery costs of Express Mail with a signature waiver from Accountable delivery costs to non-accountable delivery costs is consistent with the method the Commission approved in Proposal Eight, Docket No. RM2011-12. Secondly, neither proxy for the cost of delivering NSA Express Mail with a signature waiver is needed now that city carrier data identifies the volume and allows the direct calculation of the cost of NSA Express Mail with a signature waiver. Third, the PR recommends the Commission seek additional evidence affirming the reasonableness of the assumption that twenty-five percent, rather than ten percent, of NSA Express Mail will be delivered on a Regular City Route, rather than on a Special Purpose Route.² Finally, if and when the Commission undertakes a new carrier street time study, non-accountable scan time should be excluded from regular delivery time in the delivery time model.

² The Postal Service states that the contract for NSA Express Mail specifies that delivery must occur before the end of the day, rather than within a specific window of time before the end of the day. The PR believes this will increase the Postal Service’s delivery time flexibility and should increase the percentage of NSA Express Mail that will be delivered on Regular City Delivery Routes. It is simply unable to judge the feasibility of the Postal Service’s assumption that twenty-five, rather than perhaps fifteen 15 percent, of NSA Express mail will be delivered on Regular City Delivery Routes.

Proposal Twelve: Modification of the Standard Mail Presort Letters Mail Processing Cost Model

The Postal Service proposes to disaggregate the currently averaged unit cost of nonautomation, machinable MAADC and AADC presort Standard Mail Letters so that one would be able to calculate the passthrough for Standard MAADC nonautomation, machinable, presort MAADC mail. See, *FY2010 Annual Compliance Determination at 110*.

The Postal Service accomplishes this task by employing the assumptions the Commission accepted in Docket No. RM2011-5, *Order Concerning Analytical Principles For Periodic Reporting (Proposal Nine)*, namely using Commission-approved methods to calculate automation and manual density tables, and to reduce the plant carrier route finalization rate to zero.³

The Postal Service also assumes that MAADC mailflows are accurately captured by ISS outgoing mailflows and MADC mailflows are accurately captured by ISS incoming mailflows. These were once reasonable assumptions. Now that the Postal Service has submitted a request to approve the consolidation of ISS and OSS operations into BCS operations, if the Commission were to approve this proposal, costs associated with ISS and OSS would no longer be available. *Docket No.*

RM2012-2, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal

³ However, because the Commission rejected the Postal Service's proposal to estimate the productivity levels for Manual Incoming Secondary Delivery Units, Post Office Box, DPS Wall Post Office, Box Non-DPS Wall, and Manual Plant Bundle Sorting Productivity, the Postal Service reverts to estimates developed in MC-95-1 for these parameters. This was undoubtedly necessary given the limited amount of time between the Commission rejection of these productivity levels and the deadline for filing this year's ACR. The Postal Service should provide updated estimates for these productivities by the next ACR.

Seventeen). Consequently, the Commission should reject the instant proposal and require the Postal Service to provide a different solution to estimate the unit costs of deaveraged nonautomation, machinable MAADC and AADC presort Standard Mail Letters.

Proposal Thirteen: Development of a New Mail Processing Cost Model for Media Mail/Library Mail

The Postal Service has been proposing to modify various Parcel costing models, beginning with Docket No. RM2010-12.⁴ The Commission has accepted the proposed modifications, provided the Postal Service utilizes the Commission's cost pool classification methodology principles, outlined in Docket No. R2006-1. These principles involve the distribution of allied and support pool costs in the same proportions as directly assigned pools (either proportional or fixed).

In this proposal, the Postal Service states it has applied the Commission's cost pool classification methodology. It also proposes several minor modifications, including:

- PostalOne! mailing statement data are used to estimate the percentage of non-dropship mail entered at the various types of facilities; and
- weight-based measures are used to estimate machinable, NMO, and Flat-IPP mail pieces

The PR will address each of the proposed modifications.

Commission's Cost Pool Methodology. Comparing the worksheet entitled "Volumes" in Proposal 13.xls to the same worksheet in RM2010-12, shows that every

⁴ RM2010-12, Petition of the United States Postal Service Requesting Initiation of A Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three - Eight); RM2011-6, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Thirteen - Fourteen); and RM2011-5, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Nine - Twelve).

cost pool is treated according to the Commission's cost pool methodology as seen in PRC-LR-1_Media_MP.xlsx, Sheet: "Cost Pool Data." *Docket No. RM2011-5, PRC-RM2011-5-LR-1_Media_MP.xlsx*. The Postal Service has correctly applied the Commission's cost pool classification methodology.

PostalOne! Mailing Statement Data. The Postal Service also proposes to use PostalOne! mailing statement data to estimate the percentage of non-dropshipped Media Mail entered at the various types of facilities. The Postal Service notes that the Commission has already accepted using PostalOne! data for this purpose. *Docket No. RM2011-6, Order No. 791*. The PR agrees that PostalOne!, the electronic database of mailing statements, is a reliable source from which to estimate the percentage of non-dropship media mail entered at the various types of facilities.

Weight-Based Conversion Measures. The worksheet "Conversion Measures" estimates machinable pieces as cubic feet utilized, divided by the average cubic feet per piece for different types of containers, which is a cube-based method of calculating the number of machinable pieces by type of container. NMO pieces are calculated by multiplying the number of machinable pieces per container type, by the ratio of the *average* weight per piece, and the average *heavy* NMO weight per piece, per type of container. The Postal Service states that the ratio of light (*average*) to *heavy* weight pieces acts as a proxy for the share of NMO pieces in each type of container. The PR agrees.

Weight is an accepted proxy for cube, and this method of estimating of the number of NMO pieces per type of container is likely to produce more accurate estimates of NMO pieces per type of container, than would a piece-based method.

Lastly, the number of Flats/PPs pieces per type of container is calculated as the ratio number of pieces of the percent of cubic space used per type of container that contains Flats/PPs, divided by the average cubic feet per piece used by Flats/PPs in various types of containers. This is a cube-based method of estimating the number of pieces per type of container. Since cube is generally considered a more accurate driver of parcel shapes, this procedure should provide more accurate estimates Flat/PP pieces per type of container than a piece-based method. In summary, the PR supports each component of Proposal Thirteen.

Proposal Fourteen: Changes in Special Services Cost Models

The Postal Service proposes to add the cost incurred by a Window clerk for waiting for a customer to walk from the front of the line to the counter (“Waiting Time Adjustment Factor”) and the costs of clocking in, clocking out, personal breaks, and moving equipment in window and mail processing costs (“Miscellaneous Factor”) to several special or ancillary services, specifically to: Caller Service; Certificate of Mailing; Signature Confirmation; Periodicals Applications; PO Box Key and Lock; Restricted Delivery; Zip Coding of Mailing List; and Caller Service.

If any of these services fall in the categories “Other Customer Related Window Activity,” “Other Window Related Office-Activity,” “Other Ancillary Services,” or if they are explicitly identified as an Ancillary or Special Service in *CS03-NP.XLS, Sheet: 3.2.1*, they currently have “waiting time” and “miscellaneous costs” attributed to them. See, *USPS-FY10-NP14, File: CS03-NP.XLS, Sheet: 3.2.1*. The PR believes that any fee service, such as Periodicals Applications, is an Other Ancillary Service, because it is only purchased if it is purchased with the payment of postage for a mail product.

Mail products are attributed a portion of waiting time and miscellaneous time costs.

The following chart shows how the PR believes the services at issue should be

Service Proposed to Receive Waiting and Miscellaneous Time	Category of Service	Is Service Currently Attributed a Share of Waiting and Miscellaneous Time?
Caller Service	Special Service	Yes
Certificate of Mailing	Other Ancillary. It is a fee connected to the purchase of another product or service.	Yes
Correction of Mailing List	Probably an Other Special Service, but Other Special Services do not have a positive cost in Segment 3 or I-Forms, and the DMM description does not identify this as being an ancillary addition with the purchase a specific service.	No.
Signature Confirmation	Other Ancillary. DMM describes it as a fee connected to the purchase of another product or service.	Yes
Periodicals Application	Other Ancillary. It is a fee connected to the purchase of another product or service, in this case mail of Periodicals.	Yes
PO Box Key and Lock	Special Service. Explicitly identified in Segment 3 and I-Forms as a Special Service.	Yes
Restricted Delivery	Other Ancillary. According to the DMM it is a fee connected to the purchase of various First-Class, Standard and Package Services, as well as Ancillary Services such as Certified Mail and some COD.	Yes
ZIP Coding of Mailing List	Probably an Other Special Service, but Other Special Services do not have a positive cost in Segment 3 or I-Forms, and the DMM description does not identify this as being an ancillary addition with the purchase a specific service.	No

identified, and whether they have currently been attributed a share of waiting time and miscellaneous time.

In conclusion, the Commission should accept the new cost models in Proposal Fourteen, but modify them to remove waiting time costs and miscellaneous costs from all models, with the exception of Correction of Mailing List, and ZIP Coding of Mailing List.

Proposal Fifteen: New Cost Model Estimates of Return Receipt and Return Merchandise Services

The Postal Service performed a field study of post office and retail units this year, in order to update the cost studies of several Return Receipt services and Return Merchandise service. *Petition at 21.*

All of the services listed in this proposal are Other Ancillary Services, for they can only be purchased in connection with the purchase of postage for mailing a mail product. Consequently, the costs associated with waiting and miscellaneous time are currently distributed to Return Receipt for Merchandise. The Commission should remove these costs from the proposed cost models.

The PR is also concerned about the consistency between the time estimates for return receipt services and similar window services provided by witness Bradley's update of the window transaction model in R2006-1. He estimates that the average transaction time for all Special Services (which he called Other Special Services) was 8.2 seconds. *Response of the United States Postal Service to Presiding Officer's Information Request No. 7, Questions 3-9, file Average Product Times.R2006.xls.*

Proposal Fifteen estimates that the transaction time for Return Receipt is 38.4 seconds (0.64 x 60). *Petition at 22.* Witness Bradley's estimate, admittedly, is an average of Other Special Services, while the 38.4 seconds for Return Receipt is limited to a single one of the services that witness Bradley included in Other Special Services.

Nevertheless, because the scale of the difference is large and witness Bradley's model has many more control features than the method used in Proposal Fifteen, the PR recommends the Commission ask the Postal Service to determine whether the

estimates provided in Proposal Fifteen and those provided by witness Bradley are consistent with each other, and if they are not consistent, determine an appropriate change to the method used in Proposal 15, or consider modifying the current window service transaction model in the Strategic Rulemaking.

Conclusion

The Public Representative respectfully submits these comments for consideration.

A handwritten signature in black ink, appearing to read "Lawrence Fenster", written over a horizontal line.

Lawrence Fenster
Public Representative
901 New York Avenue NW Suite 200
Washington DC 20268-0001
202-789-6862
larry.fenster@prc.gov